Dofasco Inc. '80 annual report

DOFASCO

Dofasco

Dofasco is Canada's second largest fully-integrated basic steel producer, providing over 20% of the country's steel production. Basic steel products include hot and cold rolled, galvanized, tin plate, chromium coated and electrical steels in cut length and coil form, prepainted steel products and steel castings. Manufactured products include railway rolling stock made at National Steel Car, a subsidiary in Hamilton, and small diameter tubular products for the oil, gas and construction industries made at Prudential Steel, a subsidiary located in Calgary.

Dofasco also owns interests in iron ore mines which provide raw materials for the steel plant: the Adams and Sherman Mines in Ontario, Wabush Mines in Labrador with a pellet plant in Quebec, as well as the Eveleth Expansion Company in Minnesota. The Corporation owns BeachviLime and its subsidiary Guelph DoLime which produce lime and limestone products. Dofasco also has a minor ownership interest in the Itmann Coal Company of West Virginia.

The Corporation owns 50% of Baycoat, a coil coating company located in Hamilton, which applies a variety of high technology paint finishes to steel strip.

Dofasco is a Canadian corporation with over 96% of its shares held in this country.

The annual meeting of shareholders will be held at the offices of the Corporation in Hamilton, Ontario on Friday, May 1, 1981 at 12:00 o'clock noon.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie case postale 460, Hamilton, Ontario.

Contents

Highlights

	1980	1979	Increase (Decrease)
Production of ingots and castings – net tons*	**3,681**	4,060	(9.3%)
Shipments of flat rolled products and steel castings – net tons*	**2,891**	2,958	(2.3%)
Sales*	**$1,541,914**	$1,435,058	7.4%
Net income*	**$ 122,244**	$ 136,945	(10.7%)
Net income available for common shareholders*†	**$ 107,304**	$ 125,191	(14.3%)
Net income – per common share†	**$ 6.67**	$ 7.88	(15.4%)
Net income – percent of sales†	**7.0%**	8.7%	(19.5%)
Net income after adding back interest on long term debt (after taxes) – percent of average capital employed	**9.5%**	11.6%	(18.1%)
Net income – percent of average common shareholders' equity†	**15.2%**	20.2%	(24.8%)
Dividends declared – total*	**$ 53,961**	$ 45,131	19.6%
Dividends declared – per common share	**$ 2.42½**	$ 2.10	15.5%
– per Class A preferred share	**$ 4.75**	$ 4.75	—
– per Class B, Series 1, 2 and 3 preferred share	**$ 2.108**	$ 1.808	16.6%
– per Class B, Series 4 preferred share	**$ .58¾**	—	—
Capital expenditures – manufacturing*	**$ 176,848**	$ 61,257	188.7%
– mines and quarries*	**$ 8,867**	$ 10,732	(17.4%)
Depreciation*	**$ 65,634**	$ 64,876	1.2%
Average number of employees	**14,100**	13,700	2.9%
Number of holders of common shares	**13,719**	14,141	(3.0%)

*in thousands

†after preferred dividends

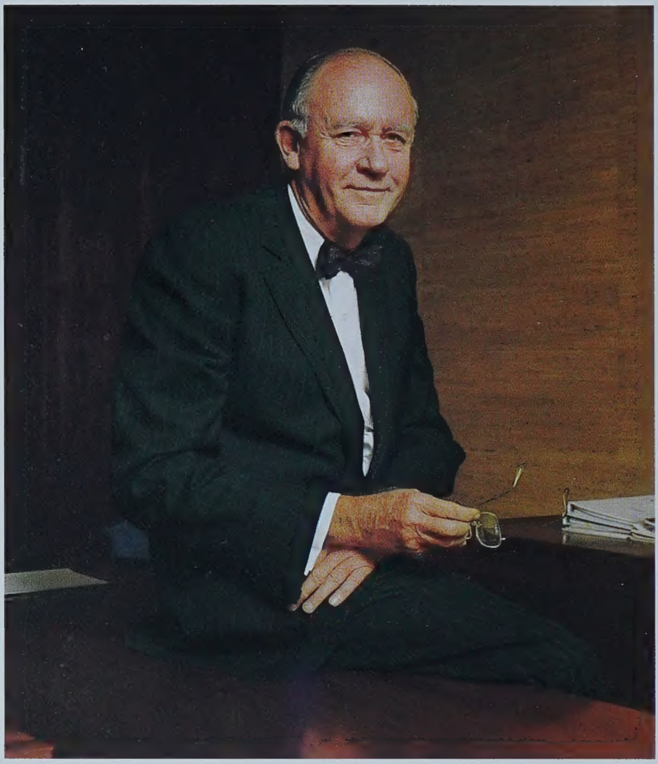
Stock market information

Class A convertible common shares

Year	High	Low	Shares traded	Dividends declared
1980	$43½	$30½	2,652,947	$2.42½
1979	$36¼	$30½	2,293,347	$2.10
1978	$32	$22	2,282,906	$1.65¾

Valuation day (December 22, 1971) share prices: Common $25.00; Class A preferred $74.00.

President's message



Despite the generally poor economic climate throughout last year, 1980 was relatively good for Dofasco. Consolidated sales increased to $1.5 billion, a new record. Net income was $122 million, down from $137 million the previous year.

Our steel operations began 1980 running at full capacity. During the first quarter, sales, shipments and earnings were all above the previous year's record results for the same period. However, in the second quarter we experienced a sudden, steep drop in domestic demand for steel which led to a brief plant shutdown at mid-year.

To maintain plant operating rates we actively sought additional business in offshore markets. By September, domestic demand for steel began to improve and the plant operated at or near capacity through to year-end.

Our subsidiaries significantly increased their contribution to consolidated results. National Steel Car and Prudential Steel both had record sales and earnings which helped to offset the lower contribution from steelmaking.

During the year, National operated at high levels, producing over 4,100 rail cars, including 1,555 units for transportation of Canadian grain. At Prudential, shipments of oil country tubular products were substantially increased. Line pipe sales remained comparable to 1979 record levels while hollow steel structurals declined significantly.

Outlook

Our order books are full through the first quarter and capacity operations are anticipated through to mid-year. Looking beyond this period there is less certainty although good operating rates are expected for the balance of the year. Overall, we anticipate growth of approximately 5% in total Canadian steel consumption for 1981.

Expansion

We have confidence in the long term growth in Canadian markets for steel and as a result are proceeding with an expansion program designed to increase raw steel capacity to 4.5 million tons by the mid-1980's. As part of this expansion, we have invested $666 million over the past five years in new plant and equipment. At year-end the estimated amount required to complete our authorized capital projects was $488 million. Major facilities currently under construction include a fourth galvanizing line and a second hot strip rolling mill.

Government and the Economy

We continue to seek and encourage improved communication and cooperation between government and business in the belief that such measures are good for Canada and can help to reduce business uncertainty. Governments at all

levels must continue to develop policies that will lead to greater utilization of productive capacity and increased levels of real growth.

We are fortunate in this country to have the opportunity to work towards energy self-sufficiency. The federal and provincial governments must move to permit certain large energy investment projects to proceed. Such projects not only offer long term energy security but also significant industrial growth. They will create many thousands of jobs in the construction sector, among machinery and equipment suppliers and in a wide variety of related businesses across Canada.

Government policy should also continue to assist in providing a climate that encourages smaller investment projects that have a more immediate impact on improved output and productivity. Making such investments requires an expectation of economic growth, continuity in tax laws and their interpretation and a potential for reasonable after-tax rates of return. All of these factors have influenced our decisions to expand and improve our plant and equipment in order to remain competitive in domestic and world markets.

We are all aware of the negative impact of inflation. The risk of even higher inflation seems particularly great at this time and government policy should be directed toward its control.

This country has a great future. We need hard decisions and we need them now to create the climate of confidence and stability necessary for economic expansion.

Management Changes

We were all saddened at the passing of William C. Hassel in January, 1981. Bill was a director and Vice President – Operations. He had been with Dofasco for forty-five years, his entire working life, and will be greatly missed by his many business associates.

Donald A. R. Pepper, Vice President – Personnel retired in December 1980. Don joined Dofasco forty-five years ago and held a number of important positions prior to his appointment as Vice President in 1974. Over the years he contributed very significantly to the success of Dofasco.

In March 1980, Robert W. Grunow was appointed Comptroller. Bob joined Dofasco in 1967 and was Assistant Comptroller – Financial prior to this appointment.

On behalf of the Board of Directors, I thank our customers and shareholders for their continued support. I especially congratulate our employees who worked so well during this sometimes difficult year. Their fine efforts made the year far more successful than it might have been.

F. H. Sherman
President

Hamilton, Ontario
March 19, 1981

Operations

Production

Dofasco produced 3.7 million tons of ingots and castings in 1980. This was the second highest ever achieved, although 9.3% below the previous year's record level.

Primary factors affecting production were reduced demand and the scheduled relines of two of our four blast furnaces. Operating rates were high through the first half of 1980 but dropped off dramatically in mid-year. However, demand for our products strengthened by September and the plant operated at good levels from October through to year-end.

Major maintenance projects scheduled for 1981 include relining our other two blast furnaces. Ingots are being placed in inventory to permit rolling and finishing operations to continue during these periods of decreased iron production.

New Facilities

Dofasco's fourth galvanizing line is nearing completion and should be ready for operation by mid-1981. The $49 million line will increase galvanizing capacity by 35% to 850,000 tons per year.

Construction of the $450 million No. 2 Hot Strip Rolling Mill is also proceeding as planned and the mill is scheduled to start up in 1983. This is the largest single investment in our history. Its initial raw steel rolling capacity will be 1.2 million tons per year which can later be expanded in stages to 4.5 million tons at a relatively small additional cost compared to the initial expenditure.

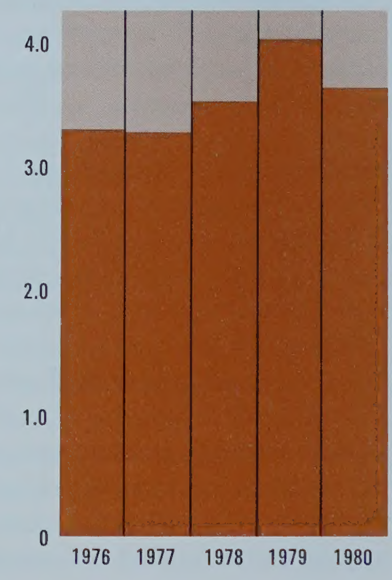
Raw Materials

During 1980 Dofasco used just over 4.5 million tons of iron ore – down from 5.0 million tons in 1979. Over 80% of this was obtained from our ownership interests in iron ore mines and the balance under term contracts. Based on current production rates, mines in which Dofasco has an ownership interest have proven iron ore reserves to support their operations into the next century.

Consumption of coking coal in 1980 was 1.8 million tons. Ten percent came from our ownership interest in the Itmann Coal Company, 65% from term contracts and the remainder from annual purchases. Our current coal inventory is sufficient to meet production needs through mid-year. Purchases in 1981 will be approximately 1.7 million tons.

Almost all of Dofasco's lime and limestone requirements are obtained from subsidiary companies – BeachviLime and Guelph DoLime.

INGOT AND CASTINGS PRODUCTION
In millions of net tons



Inspection helps ensure Dofasco products meet quality requirements.

Markets

Consolidated sales in 1980 were $1,542 million. Flat rolled steel shipments decreased by 2.3% to 2,852,172 tons. Casting sales increased marginally to 39,096 tons, mainly due to demand from the rail transportation sector. Due primarily to rising costs, it was necessary to increase prices on all of our steel products by an average of 8.1% during the course of the year.

We estimate that the Canadian flat rolled market declined by 15% to just over 7,000,000 tons in 1980, mainly because of reduced consumer spending on durable goods, lower residential construction activity and customer inventory reductions. The domestic automotive and agricultural sectors were the most severely affected. Dofasco's shipments to these markets declined by 30%. We were able to offset some of the reduced demand from our traditional markets by securing new business overseas. These export orders consisted largely of semi-finished hot rolled products.

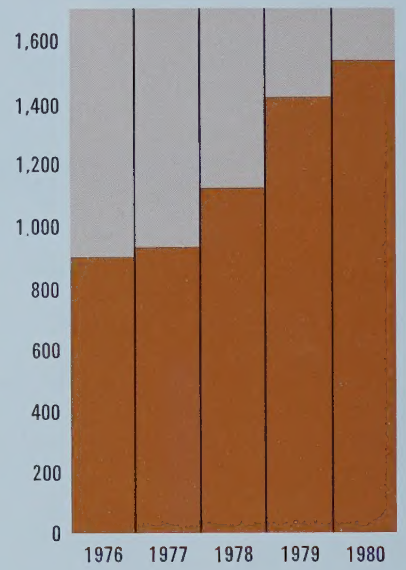
During 1980, good results from National Steel Car in the railway sector and Prudential Steel in the pipe and tube market made important contributions to consolidated sales.

Outlook

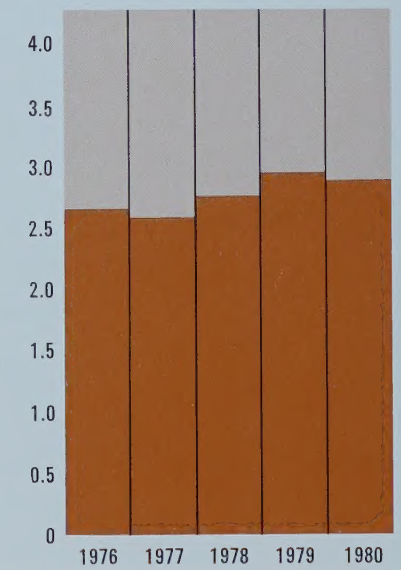
We expect some improvement in demand from most steel markets during 1981. The automotive sector operated at low levels in 1980, but is expected to consume more Canadian flat rolled steel in 1981. Steel service center markets should show good growth as domestic demand strengthens. Demand from the pipe and tube sector is also expected to improve with continuing activity in the oil and gas sector. Markets for metal building systems, agricultural equipment and non-electrical machinery should expand. Based on current orders for railway rolling stock, National Steel Car should enjoy good operating rates into the second quarter. However, production levels during the second half of the year will depend upon new orders.

Overall, we are optimistic that 1981 will be a better year for the Canadian steel industry. Total domestic demand is expected to be more than 5% ahead of last year as customers attempt to rebuild inventories to normal levels.

CONSOLIDATED ANNUAL SALES
In millions of dollars



SHIPMENTS OF FLAT ROLLED PRODUCTS AND STEEL CASTINGS
In millions of net tons



Ease of installation, low maintenance and design appeal have led to a large and growing market for prepainted steel for both interior and exterior application.

Dofasco supplies farm machinery manufacturers with steel to serve North America's agricultural needs.

Technology

Continuing investment in advanced technology and equipment has helped to make Dofasco a very modern and efficient steel producer. Co-operative efforts between our Research and Operating departments help to increase productivity, improve quality, save energy, decrease emissions and upgrade working conditions. For example, as a result of such work, our coal requirements to produce a ton of iron are among the lowest in North America.

Dofasco's steelmaking yields have improved steadily and our No. 1 Hot Strip Rolling Mill is one of the most productive in the industry. Such achievements are the result of the right mix of modern technology, good planning and individual commitment and attention to detail by all concerned.

On the product side, Dofasco's scientists and engineers continue to develop new grades of steel for specific needs and also to design steel products for new applications. Recent projects include the development of a paintable galvanized steel for automotive applications as well as design work for energy-efficient buildings made from steel components.

Dofasco's foundry produces steel castings for rail vehicle undercarriages, partly based on designs developed by a team of our transportation engineers. The work of this group has recently emphasized development of light and intermediate weight suspension systems for mass transit vehicles. This is an important emerging market.

Good progress has been made in the application of technology in environmental control and energy conservation. Total plant emissions since 1970 have been cut by approximately 70% at a cost of over $120 million, while production has nearly doubled. During this period the amount of energy required to produce one ton of steel at Dofasco has decreased significantly. At current production rates the energy saved each year is enough to heat 20,000 Canadian homes.

Summaries on microfilm provide easy access to world-wide technical literature in chemistry, metallurgy and related sciences.

Dofasco's bi-level rapid transit rail truck was designed to meet the undercarriage requirements for the Ontario Government's commuter service – GO Transit.

A computer controlled image analyzer is used to identify grain structures and non-metallic substances found in different steels.

People

Since Dofasco's operations depend upon the expertise of our employees, a comprehensive training program was started more than ten years ago to ensure a continual supply of highly skilled tradespeople. This program, which provides more than 95% of our needs, has a strong emphasis on theory, combined with hundreds of hours of shop and on-the-job training. During 1980, over one hundred apprentices completed their trades training in the mechanical, electrical and instrumentation fields.

The introduction of a comprehensive program for monitoring the work environment in the early 60's has helped make Dofasco a leader in this field. Our occupational environment specialists work closely with operating departments to evaluate the health and safety aspects of current operations and to assist in the planning and design of new facilities.

The employee recreation park has undergone a further expansion with the purchase of an additional fifty acres adjacent to the original property. This acquisition will in the long term allow an increase in facilities, which currently include baseball and football fields, tennis courts, a golf driving range, picnic groves and a 400-meter track.

Community involvement continues to play an important role in many Dofasco employees' lives. Some lend their business skills to help in the management and planning of various social agencies, cultural and recreational organizations and other community groups. Others volunteer their time and energy directly to those who need personal assistance.

During 1980, Dofasco provided an additional ongoing supplement to retirees to help offset the erosion of income due to inflation. This supplement is also being paid to surviving spouses of long term employees and retirees.

Skilled personnel are required to operate the sophisticated controls in Dofasco's modern steel plant.

Dofasco's recreation program involves more than 5,000 employees and their families in approximately 50 organized activities.

Maintaining a safe and healthy work environment continues to be a priority at Dofasco. Frequency analyzers are used to measure noise levels in various areas throughout the plant.

Financial review

Consolidated net income was $122.2 million, 10.7% less than last year's record. Earnings per common share after preferred dividends were $6.67. These earnings represent a 15.2% return on common shareholders' equity, down from last year's return of 20.2%.

Reduced North American demand for flat rolled steel was offset in part by increased overseas sales of semi-finished products. While this allowed our plant to maintain good operating rates, these exports yielded lower margins and were a factor in this year's reduced profitability.

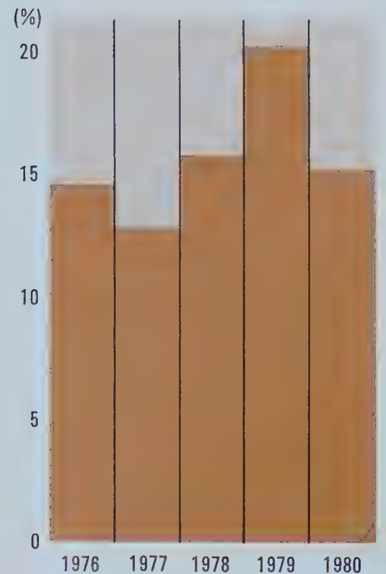
In 1980, National Steel Car, Prudential and BeachviLime all had record profits. However, earnings from Baycoat dropped considerably, largely due to decreased demand from the automotive sector.

Capital spending at Dofasco and its subsidiaries in 1980 totalled $185.7 million. Of this, $24.4 million was spent on the No. 4 Galvanizing Line and $70.2 million on the No. 2 Hot Strip Mill.

During the year additional capital was raised through a $60 million issue of 13½%, 20-year sinking fund debentures and a $60 million issue of 2.4 million preferred shares carrying an annual dividend of $2.35. Holders of these preferred shares also received common share purchase warrants expiring in October 1985.

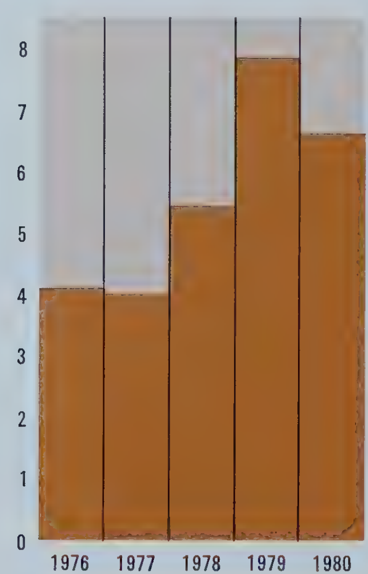
Since July 1, 1980, quarterly dividends on Class A common shares have been paid at the rate of 62.5¢ per share, up from the previous rate of 55¢. Total common and preferred share dividends declared during 1980 were $54.0 million compared to $45.1 million in 1979.

RETURN ON COMMON SHAREHOLDERS' EQUITY*



*after preferred dividends

NET INCOME
Dollars per common share*



*after preferred dividends

Consolidated statement of income and retained earnings

for year ended December 31, 1980 (with comparative figures for 1979)

	$000's	
	1980	1979
Income		
Sales	**$1,541,914**	$1,435,058
Cost of sales (excluding the following items)	**1,257,306**	1,117,388
Depreciation and amortization	**65,634**	64,876
Employees' profit sharing (note 11)	**14,705**	20,479
Interest on long term debt	**32,339**	32,672
	1,369,984	1,235,415
Income from operations	**171,930**	199,643
Income from investments	**21,914**	19,602
Income before income taxes	**193,844**	219,245
Income taxes	**71,600**	82,300
Net income for year	**$ 122,244**	$ 136,945
Retained earnings		
Balance at beginning of year	**$ 568,754**	$ 476,729
Add:		
Net income for year	**122,244**	136,945
Discount on Class A preferred shares purchased for cancellation	**139**	211
	691,137	613,885
Deduct:		
Dividends declared –		
Preferred shares	**14,940**	11,754
Common shares (including stock dividends with a cash equivalent, 1980 – $2,430,000; 1979 – $4,083,000)	**39,021**	33,377
Cost of issuing Class B, Series 4 preferred shares less related taxes	**1,107**	—
	55,068	45,131
Balance at end of year	**$ 636,069**	$ 568,754
Earnings and dividends per common share		
Net income for year (as above)	**$ 122,244**	$ 136,945
Deduct preferred dividends – Class A preferred	**884**	905
– Class B preferred	**14,056**	10,849
	14,940	11,754
Net income available for common shareholders	**$ 107,304**	$ 125,191
Net income per common share (after preferred dividends)	**$ 6.67**	$ 7.88
Dividends declared per common share (including stock dividends having a substantially equivalent value)	**$ 2.42½**	$ 2.10

See accompanying notes to consolidated financial statements.

Consolidated statement of financial position

December 31, 1980 (with comparative figures at December 31, 1979)

	$000's	
	1980	1979
Current assets:		
Cash and short term investments at cost and accrued interest	**$ 202,857**	$ 182,045
Accounts receivable	**209,519**	174,527
Inventories (note 3)	**426,269**	422,393
	838,645	778,965
Current liabilities:		
Bank indebtedness	**—**	9,869
Accounts payable and accrued charges	**179,413**	173,545
Amounts payable for employees' profit sharing	**14,705**	19,479
Income and other taxes payable	**29,221**	47,350
Dividends payable	**13,929**	10,683
Current requirements on long term debt (note 6)	**2,592**	2,053
	239,860	262,979
Working capital	**598,785**	515,986
Fixed assets, less accumulated depreciation and amortization (note 4)	**1,002,050**	881,969
Investments	**4,435**	5,277
Unamortized debenture discount and issue expense	**4,599**	3,534
Capital employed	**1,609,869**	1,406,766
Deduct:		
Long term debt (note 6)	**369,206**	316,993
Income tax allocations relating to future years	**272,000**	253,100
	641,206	570,093
Shareholders' equity	**$ 968,663**	$ 836,673
Represented by:		
Preferred shares (note 7)	**$ 228,492**	$ 168,797
Common shares (note 8)	**103,505**	97,964
Stock dividend distributable	**597**	1,158
Retained earnings	**636,069**	568,754
	$ 968,663	$ 836,673

On behalf of the Board:

Director Director

See accompanying notes to consolidated financial statements.

Consolidated statement of changes in financial position

for year ended December 31, 1980 (with comparative figures for 1979)

	$000's	
	1980	1979
Source of funds:		
Operations –		
Net income for year	**$ 122,244**	$ 136,945
Add items not requiring an outlay of funds –		
Depreciation and amortization	**65,634**	64,876
Income tax allocations relating to future years	**18,900**	35,600
Other changes	**315**	475
Funds from operations	**207,093**	237,896
New financings less related costs:		
Debentures	**58,620**	—
Preferred shares	**58,893**	—
Common shares issued for cash	**2,550**	1,793
Decrease in investments (net)	**842**	718
	327,998	240,407
Application of funds:		
New facilities and equipment (after deducting investment tax credits, 1980 – $12,565,000; 1979 – $4,741,000) –		
Manufacturing	**176,848**	61,257
Mines and quarries	**8,867**	10,732
Reduction in long term debt	**7,787**	22,370
Preferred shares purchased for cancellation	**166**	364
Dividends to shareholders –		
Preferred shares	**14,940**	11,754
Common shares	**36,591**	29,294
	245,199	135,771
INCREASE IN WORKING CAPITAL	**82,799**	104,636
WORKING CAPITAL AT BEGINNING OF YEAR	**515,986**	411,350
WORKING CAPITAL AT END OF YEAR	**$ 598,785**	$ 515,986

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

December 31, 1980

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles consistently applied. They are based on information available to January 30, 1981 and are within the framework of the accounting policies summarized below:

(1) Accounting policies

(a) Basis of consolidation –

The consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries (National Steel Car Limited, Prudential Steel Ltd. and BeachviLime Limited), as well as the Corporation's proportionate share of the assets, liabilities and results of operations of its joint venture activities (Sherman Mine, Wabush Mines, Eveleth Expansion Company and Baycoat Limited).

(b) Translation of foreign currencies –

Foreign currency balances are translated into Canadian dollars at year-end rates of exchange for working capital items. Long term assets and liabilities are translated using historical rates. Actual exchange rates in effect during the year are used for all revenue and expense items except depreciation and amortization which are translated at historical rates. Any resulting translation gains or losses are reflected in income.

(c) Inventories –

Inventories of materials, supplies, work-in-process and finished products are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination, or for certain raw materials by aerial survey.

(d) Fixed assets and related investment tax credits –

Fixed assets are recorded at their historical cost which includes the cost of installation. Investment tax credits based on fixed asset expenditures are recorded as a reduction of the cost of fixed assets.

Production stripping at mines and quarries is expensed as incurred. However, the initial costs of bringing a mineral property into production are capitalized as part of the cost of the property.

Depreciation is computed generally on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2.5 to 5%
Equipment	6 to 7.5%
Automotive	20 to 25%
Mine and quarry facilities	4.5 to 5%

(e) Repairs and maintenance costs –

Repairs and maintenance costs are expensed as incurred except for the cost of relining blast furnaces which is accrued over the period between relines.

(f) Income taxes –

The provision for income taxes is reduced by statutory deductions associated with iron production and processing and with the 3% inventory allowance. Mining taxes are calculated on the value of mine production and are included with income tax expense.

Income tax regulations permit the Corporation to deduct certain costs (principally depreciation) at a more rapid rate than is reflected in its accounts. The tax effect of these timing differences is recognized in the accounts as "Income tax allocations relating to future years".

(2) Continuance

On October 6, 1980, the Corporation was continued under the Canada Business Corporations Act. In conjunction with such continuance its name was changed from Dominion Foundries and Steel, Limited to Dofasco Inc. and its authorized share capital was altered to consist of:

(a) Three classes of preferred shares; Class A with 500,000 authorized shares and Classes B and C with an unlimited number of authorized shares in each class.

(b) An unlimited number of interconvertible Class A and Class B common shares.

(3) Inventories

	$000's	
	1980	1979
Materials and supplies	$ 257,742	$ 207,802
Work-in-process and finished products	168,527	214,591
	$ 426,269	$ 422,393

(4) Fixed assets

	$000's	
	1980	1979
Manufacturing facilities and equipment	$1,407,296	$1,232,013
Mine and quarry facilities	240,530	234,897
	1,647,826	1,466,910
Less accumulated depreciation and amortization	645,776	584,941
	$1,002,050	$ 881,969

(5) Joint ventures

The Corporation receives a pro rata share of iron ore production from three joint ventures in return for paying its proportionate share of costs. The expenses incurred by the joint ventures are included in the cost of the materials produced and ultimately are reflected as cost of sales when finished steel products are sold.

The fourth joint venture is Baycoat Limited, a coil coating operation, in which the Corporation has a 50% interest. The Corporation reflects its share of revenues and expenses of this joint venture in the statement of income.

The Corporation's share of the assets and liabilities of these joint ventures (included in the statement of financial position categories to which they relate) is as follows:

	$000's	
	1980	1979
Working capital	$ 21,728	$ 9,320
Fixed assets	101,948	106,261
Other assets	3,584	3,615
	127,260	119,196
Long term debt and income tax allocations relating to future years	33,345	35,534
Net investment	$ 93,915	$ 83,662

(6) Long term debt

	$000's	
	1980	1979
Sinking fund debentures –		
6½% due May 15, 1987	$ 21,212	$ 21,633
9% due February 1, 1991	37,274	37,932
10% due June 1, 1994	40,485	41,223
10⅞% due May 15, 1995	51,590	52,202
10⅜% due March 15, 1996	54,639	55,455
9⅜% due February 15, 1997	75,000	75,000
13½% due November 1, 2000	58,050	—
Eveleth Expansion Company first mortgage bonds (proportionate share)		
9½% due 1995 (U.S. $26,400,000)	26,832	28,412
10% due 1995 (U.S. $6,528,000)	6,435	6,814
Baycoat Limited first mortgage (proportionate share) –		
12% due July 1, 1983	281	375
Outstanding at December 31	371,798	319,046
Less current requirements	2,592	2,053
	$369,206	$316,993

Requirements for repayment of long term debt within the next five years are as follows:

1981 – $2,592,000; 1982 – $4,549,000;
1983 – $13,683,000; 1984 – $16,720,000;
1985 – $16,732,000.

The Corporation has revolving bank credit available until December 31, 1991 in the amount of $150,000,000 in Canadian funds plus an additional $50,000,000 in either Canadian or U.S. funds. Interest is at the rate of ⅜ of 1% above the prime commercial rate. During 1980 none of the revolving bank credit was used.

If the Eveleth Expansion Company first mortgage bonds were translated into Canadian dollars at the year-end rate of exchange, the long term portion of this debt, outstanding at December 31, 1980, would increase by $5,590,000. This is not necessarily indicative of the amount which will be repaid when these obligations are retired.

Notes (continued)

(7) Preferred shares

Authorized – preferred shares issuable in series:
Class A preferred shares – 500,000
Class B preferred shares – unlimited
Class C preferred shares – unlimited

Issued less redeemed:

	1980		1979
	Shares	$000's	$000's
Class A preferred shares			
4¾% cumulative redeemable preferred shares, Series A	184,916	$ 18,492	$ 18,797
Class B preferred shares			
Series 1, 2 and 3, having a variable dividend rate of 1¼% plus ½ of the average prime bank rate	6,000,000	150,000	150,000
Series 4, $2.35 cumulative redeemable preferred shares, 1980 series	2,400,000	60,000	—
		$228,492	$168,797

Class A preferred shares –
The Corporation is in compliance with the terms of the mandatory purchase fund designed to retire the outstanding preferred shares by 2% per year. To December 31, 1980, an aggregate of 65,084 shares have been purchased for cancellation (including 3,050 during 1980 for $166,000).

Class B preferred shares –
Series 1, 2 and 3 –

The Corporation must offer to purchase the Series 1, 2 and 3 shares at $25 plus accrued dividends on their respective initial retraction dates of July 15, 1984, 1985 and 1986 and thereafter on the fifth and tenth anniversary of such dates.

These shares may be either redeemed at a premium of $.75 per share to July 1, 1981 and at a reducing premium to July 14, 1983 (and at $25 thereafter) or purchased for cancellation at not more than current redemption prices. During 1980, no shares were purchased for cancellation.

Series 4 –
On October 15, 1980, the Corporation issued 2,400,000 Series 4, $2.35 cumulative redeemable preferred shares, 1980 Series, for $60 million cash. These shares carried the right to receive common share purchase warrants on the basis of two warrants for each five preferred shares (see note 8).

These preferred shares are redeemable by the Corporation after October 15, 1985 at a price not exceeding $25 plus accrued and unpaid dividends.

(8) Common shares

Authorized – an unlimited number of interconvertible Class A and Class B common shares

Issued	– 15,177,449	Class A
	– 965,065	Class B
	16,142,514	Total common shares

The Class A shares and Class B shares are convertible on a share-for-share basis into each other and rank equally in all respects. Dividends on the Class A shares are paid in cash. Dividends on the Class B shares are currently being paid in the form of additional Class B shares having a value substantially equal to the cash dividends paid on the Class A shares. During the year an aggregate of 87,272 Class B shares were issued in payment of such dividends.

The employee stock option plan, which expires in 1984, authorizes the directors to grant options to certain employees of the Corporation to purchase up to a total of 480,000 of the unissued Class A shares. The number of shares covered by each option varies with changes in the optionees' remuneration and therefore cannot be determined until the last year of its term. During the year 96,860 Class A shares were issued under the plan for $2,550,000. At December 31, 1980, the following options to purchase a total of 156,646 Class A shares were outstanding.

	Held by	
Option Price per share	Directors and Officers	Other Employees
$28⅛	36,232	19,948
$25½	53,686	46,774
$27⅞	6	—

No options are granted to directors who are not full-time employees.

Each warrant issued in respect of the Series 4, $2.35 preferred shares, 1980 Series (note 7), entitles the holder to buy one Class A common share at a price of $45.50 by October 15, 1985. On November 28, 1980, 960,000 warrants were issued, none of which had been exercised by December 31, 1980.

The disclosure of fully diluted earnings per share, after giving effect to the possible exercise of outstanding stock options and warrants, is omitted as the effect is not significant.

(9) Segmented information

The Corporation and its subsidiaries are involved in an integrated business involving basic steel production and fabrication. In accordance with statutory requirements the Board of Directors has therefore determined that the Corporation is in one line of business.

Export sales for 1980 totalled $201,821,000 ($190,259,000 in 1979).

(10) Related party transactions

Upper Lakes Shipping Ltd. is a wholly-owned subsidiary of Leitch Transport Ltd which company beneficially owns approximately 11% of the outstanding common shares of Dofasco Inc. Mr. J. D. Leitch is a director of Dofasco and and officer, director and shareholder of Leitch Transport Ltd and an officer and director of Upper Lakes Shipping Ltd.

During 1980 the Corporation was required by contract to offer to Upper Lakes Shipping Ltd. its entire requirements for water transport of the Corporation's bulk raw materials to Hamilton and Upper Lakes was required to provide such transport. Freight charges, established annually by negotiation and agreement, amounted to $22 million in 1980 (1979 – $22 million).

At December 31, 1980 the Corporation was indebted to Upper Lakes Shipping Ltd. in the amount of $282,000 (1979 – $1,399,000).

(11) Employees' profit sharing on steelmaking operations

The Corporation allocates 11% of steelmaking profits before income taxes to the Employees' Savings and Profit Sharing Fund and the Employees' Deferred Profit Sharing Plan.

(12) Retirement plans

The Corporation has funded retirement plans covering substantially all of the employees. Pension costs charged against income during the year, based on amounts estimated by independent actuaries, include amounts for current and past service. The estimated unfunded past service cost of $33,000,000 will be amortized over periods not exceeding 15 years.

(13) Commitments

The estimated amount required to complete authorized capital projects, including an allowance for the effect of continuing inflation, is $488,000,000 at December 31, 1980.

Auditors' report

To the Shareholders of
Dofasco Inc.:

We have examined the consolidated statement of financial position of Dofasco Inc. as at December 31, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON GORDON
Chartered Accountants

Hamilton, Canada,
January 30, 1981.

Ten year summary of production and financial data

	1980	1979	1978
Statement of income data			
Sales*	**$1,541,914**	$1,435,058	$1,120,383
Cost of sales (excluding the following items)*	**$1,257,306**	$1,117,388	$ 892,125
Depreciation and amortization*	**$ 65,634**	$ 64,876	$ 53,370
Employees' profit sharing*	**$ 14,705**	$ 20,479	$ 13,189
Interest on long term debt*	**$ 32,339**	$ 32,672	$ 35,195
Income from investments*	**$ 21,914**	$ 19,602	$ 12,418
Income before income taxes*	**$ 193,844**	$ 219,245	$ 138,922
Income taxes*	**$ 71,600**	$ 82,300	$ 44,000
Net income for year*	**$ 122,244**	$ 136,945	$ 94,922
Net income available for common shareholders*†	**$ 107,304**	$ 125,191	$ 85,437
Financial position data			
Working capital*	**$ 598,785**	$ 515,986	$ 411,350
Fixed assets* – land, building and equipment, at cost	**$1,647,826**	$1,466,910	$1,399,767
– accumulated depreciation	**$ 645,776**	$ 584,941	$ 524,911
Total other assets*	**$ 9,034**	$ 8,811	$ 10,004
Capital employed*	**$1,609,869**	$1,406,766	$1,296,210
Long term debt*	**$ 369,206**	$ 316,993	$ 339,363
Income tax allocations relating to future years*	**$ 272,000**	$ 253,100	$ 217,500
Total shareholders' equity*	**$ 968,663**	$ 836,673	$ 739,347
Statistical data			
Production of ingots and castings – net tons*	**3,681**	4,060	3,588
Shipments of flat rolled products and steel castings – net tons*	**2,891**	2,958	2,763
Net income per common share†	**$ 6.67**	$ 7.88	$ 5.42
Net income – percent of sales†	**7.0%**	8.7%	7.6%
Net income after adding back interest on long term debt (after taxes) – percent of average capital employed	**9.5%**	11.6%	9.4%
Net income – percent of average common shareholders' equity†	**15.2%**	20.2%	15.8%
Net worth per common share	**$ 45.85**	$ 41.85	$ 36.12
Dividends declared – per common share	**$ 2.42½**	$ 2.10	$ 1.65¾
– per Class A preferred share	**$ 4.75**	$ 4.75	$ 4.75
– per Class B, Series 1, 2 and 3 preferred share	**$ 2.108**	$ 1.808	$ 1.427
– per Class B, Series 4 preferred share	**$ .58¾**	—	—
Income reinvested in the business*	**$ 68,283**	$ 91,814	$ 59,317
Capital expenditures – manufacturing*	**$ 176,848**	$ 61,257	$ 128,205
– mines and quarries*	**$ 8,867**	$ 10,732	$ 5,920
Total dividends declared* – preferred	**$ 14,940**	$ 11,754	$ 9,485
– common	**$ 39,021**	$ 33,377	$ 26,120
Number of holders of common shares	**13,719**	14,141	14,674
Percentage of common shares held in Canada	**96.6%**	97.2%	97.1%
Average number of employees	**14,100**	13,700	12,300

*in thousands
†after preferred dividends

1977	1976	1975	1974	1973	1972	1971
$ 919,036	$ 904,958	$ 738,083	$ 681,636	$ 519,558	$ 443,775	$ 380,723
$ 752,151	$ 739,144	$ 601,301	$ 524,741	$ 382,813	$ 333,585	$ 295,011
$ 47,063	$ 42,108	$ 38,064	$ 35,119	$ 35,155	$ 33,077	$ 28,764
$ 8,529	$ 8,652	$ 6,436	$ 11,107	$ 10,033	$ 6,774	$ 5,429
$ 34,434	$ 23,736	$ 15,767	$ 9,678	$ 7,580	$ 9,053	$ 8,245
$ 12,759	$ 4,981	$ 3,958	$ 6,811	$ 1,264	$ 537	$ 1,145
$ 89,618	$ 96,299	$ 80,473	$ 107,802	$ 85,241	$ 61,823	$ 44,419
$ 21,100	$ 29,600	$ 25,000	$ 37,400	$ 32,700	$ 25,700	$ 16,400
$ 68,518	$ 66,699	$ 55,473	$ 70,402	$ 52,541	$ 36,123	$ 28,019
$ 63,103	$ 65,728	$ 54,493	$ 69,415	$ 51,530	$ 35,083	$ 26,958
$ 416,723	$ 252,894	$ 218,571	$ 163,490	$ 107,628	$ 103,559	$ 95,496
$1,269,245	$1,112,987	$1,001,298	$ 867,192	$ 780,701	$ 736,905	$ 702,283
$ 475,144	$ 431,896	$ 392,045	$ 357,014	$ 330,635	$ 296,625	$ 263,805
$ 10,937	$ 12,185	$ 11,342	$ 11,259	$ 10,939	$ 11,100	$ 8,134
$1,221,761	$ 946,170	$ 839,166	$ 684,927	$ 568,633	$ 554,939	$ 542,108
$ 357,000	$ 285,593	$ 238,791	$ 135,211	$ 80,719	$ 112,963	$ 130,705
$ 185,900	$ 169,600	$ 151,900	$ 133,000	$ 120,700	$ 113,100	$ 104,200
$ 678,861	$ 490,977	$ 448,475	$ 416,716	$ 367,214	$ 328,876	$ 307,203
3,333	3,335	3,053	3,060	3,036	2,773	2,468
2,596	2,652	2,348	2,455	2,362	2,175	1,811
$ 4.01	$ 4.17	$ 3.46	$ 4.41	$ 3.29	$ 2.25	$ 1.74
6.9%	7.3%	7.4%	10.2%	9.9%	7.9%	7.1%
8.7%	9.3%	8.7%	12.2%	10.2%	7.5%	6.6%
12.9%	14.6%	13.2%	18.7%	15.8%	11.8%	9.7%
$ 32.32	$ 29.89	$ 27.17	$ 25.15	$ 21.99	$ 19.69	$ 18.33
$ 1.55	$ 1.46¾	$ 1.44	$ 1.26	$ .97½	$ .90	$ .90
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75
$ .744	—	—	—	—	—	—
—	—	—	—	—	—	—
$ 38,116	$ 42,615	$ 31,817	$ 49,577	$ 36,264	$ 21,057	$ 12,980
$ 152,168	$ 77,411	$ 100,722	$ 85,133	$ 37,879	$ 31,799	$ 52,029
$ 7,906	$ 36,534	$ 36,419	$ 10,114	$ 3,360	$ 3,080	$ 32,590
$ 5,415	$ 971	$ 980	$ 987	$ 1,011	$ 1,040	$ 1,061
$ 24,414	$ 23,113	$ 22,676	$ 19,838	$ 15,266	$ 14,026	$ 13,978
15,196	15,298	15,932	16,110	16,272	16,629	17,958
97.1%	97.1%	97.4%	96.9%	96.4%	96.2%	95.7%
11,300	11,500	11,700	11,500	10,600	9,700	9,300

Subsidiaries	Percentage Ownership
National Steel Car Limited, Hamilton, Ontario*	
A manufacturer of railway rolling stock, industrial and mining specialty rail cars and car parts.	
T. F. Rahilly, Jr. – President	100.0%
Prudential Steel Ltd., Calgary, Alberta*	
A manufacturer of electric resistance weld pipe in the 2″ to 10″ range; tubing and casing for the oil and gas industry; hollow structural steel for agricultural and industrial uses. Its subsidiary Cardinal Tube Coatings Ltd. manufactures Blue-Gard coated steel pipe.	
J. S. Badyk – President	100.0%
BeachviLime Limited, Beachville, Ontario*	
A quarry and processing operation supplying lime and limestone products. Its wholly-owned subsidiary Guelph DoLime Limited produces dolomitic lime.	
D. A. Lindsey – President	100.0%
Iron Ore Mining and Pelletizing	
Adams Mine, Kirkland Lake, Ontario*	
Cliffs of Canada, Ltd. – Manager	100.0%
Sherman Mine, Temagami, Ontario*	
Cliffs of Canada, Ltd. – Manager	90.0%
Wabush Mines*, comprising:	
Scully Mine, Wabush, Newfoundland	
Pelletizing plant, Pointe Noire, Quebec	
Pickands Mather & Co. – Manager	16.4%
Eveleth Expansion Company, Minnesota*	
Oglebay Norton Company – Manager	16.0%
Other Investments	
Baycoat Limited, Hamilton, Ontario*	50.0%
Itmann Coal Company, West Virginia†	9.0%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%

Transfer Agents and Registrars

National Trust Company, Limited –
Toronto, Montreal, Vancouver, Winnipeg, Calgary
Canada Permanent Trust Company – Halifax
The Bank of Nova Scotia Trust Company of New York – New York

*Ownership interest consolidated in Financial Statements.

†Included under "Investments" in Financial Statements.

Directors

George H. Blumenauer
Chairman and Chief Executive Officer
Otis Elevator Company Limited
Hamilton

R. Ross Craig
Executive Vice President – Commercial

Roger G. Doe, Q.C.
Partner, Campbell, Godfrey & Lewtas
Toronto

Robert C. Dowsett
President, Crown Life Insurance
Company, Toronto

Dr. John R. Evans
Director – Population, Health and
Nutrition Department, World Bank
(International Bank for Reconstruction
and Development)
Washington, D.C., U.S.A.

Howard J. Lang
Chairman, Canron Inc., Toronto

John D. Leitch
President, Upper Lakes Shipping Ltd.,
Toronto

Frank H. Logan
Chairman, Dominion Securities
Limited, Toronto

W. Harold Rea
Vice President, The Mutual Life
Assurance Company of Canada,
Toronto

John G. Sheppard
Executive Vice President – Financial

Frank H. Sherman
President and Chief Executive Officer

Officers

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President – Commercial

John G. Sheppard
Executive Vice President – Financial

David A. Lindsey
Vice President – Raw Materials,
Purchases and Traffic

F. John McMulkin
Vice President – Research

William J. Stewart
Vice President – Product Quality
and Development

David H. Samson
Vice President – Engineering

Paul J. Phoenix
Vice President – Planning

William D. Simon
Vice President – Sales

Thomas Van Zuiden
Vice President – Finance

William L. Wallace
Vice President and Works Manager

H. Graham Wilson
Vice President and Secretary

Bill P. Solski
Treasurer

Robert W. Grunow
Comptroller

Robert J. Swenor
Assistant Secretary

L. Allen Root
Assistant Treasurer

Robert E. Wodehouse
Assistant to the Executive
Vice President – Financial

R. Eric Moore
Assistant Comptroller

John J. Fitzpatrick
Assistant Comptroller

Our product is steel...
our strength is people

DOFASCO